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Potential of the Network Concept for an Assessment of Organizational Structure

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Abstract

The article considers the possibility of application of the economic sociology concept in the process of institutional value creation at a management level of organizational structure. In our research we are particularly interested in the first type of network structures as in it is based on informal interactions inside the organization, among divisions, such cooperation in the future will form the social capital of the organization which represents a certain value for the organization, and its competitive advantages. Studying of intrafirm interactions is presented from a position of organizational structure formation.

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1. Introduction

The last 25 years the network organization principle has became one of the symbols of the worldwide revolutionary changes in management of the competitive companies.

The development of social and economic interrelations and taking them into account at formation of organizational structure in the conditions of financial crisis becomes an actual goal. Existing methods and approaches for its decision firstly belong to classical principles of identification of economic effects of interaction, secondly, models of an assessment are in most cases formulated for the productional sphere and don't reflect effects from using non-material innovative technologies, and thirdly, existing methods of an assessment of organizational structure of the companies is the result from a scale effect or additivity of expenses. All that methods are insufficient.

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Therefore, there is a necessity to analyze the influence of the social and economic interactions at the enterprise and to consider them at an assessment of the efficiency of a new organizational structure. That is why was defined a subject of the real research.

2. Theoretical background

2.1 Theory of network concept development

In domestic (Russian) literature the network concept of firms' strategy has not attracted great attention to itself yet though its studying was begun by Sterlin Ardishvili in 1991. The comparative analysis of various treatments of networks as organizational strategy was carried out for the first time in 1991 by V.S.Katkalo and then in 2003 got a development in the O.A.Tretyak's and Rummyantseva's articles (Katkalo, 2006). In these articles was made a conclusion that because of inadequacy of traditional treatments lacks not only the complete theory of the network organization capable to make a predictions of the, but even its standard complete definition.

Unfortunately, the bibliography of works of domestic authors according to the theory of network structures is still very poor. Besides the listed publications, it is possible to mark out the important researches of a question carried out by V.V.Radayev and S.P.Kushch from positions of economic sociology and relationship marketing (Kushch, 2004; Radayev, 2008).

By the beginning of the 90th the bibliography of works on the general questions of network structures and their varieties became very popular, a theme of researches also became fashionable. Scientific status of a networks' problem also was promoted by that fact that it found a place in the writings of P. Druker and R. Kanter and other gurus who have studied the general trends of development in management.

The next step in studying and promoting of the network organization in our country was researches of D. Medovnikova and T.Oganesyan (Medovnikov, & Oganesyan, 1997) where were described an examples of the Russian networks which were found in 90th generally because of high transactional expenses, they also introduced the term «shell company».

In 1998 in the 1st edition of the of B.Z.Milner's textbook about the organization theory appeared a chapter about network organizations (Milner, 2006). Since then big progress at its' studying at the Russian universities and business schools didn't happen: at the moment of the fourth edition of the textbook Milner remained the only one with such chapter among profile domestic textbooks.

2.2 Network concept's universality

It is generally known two main types of network structures: intra- and inter-firm. In our research we are particularly interested in the first type of network structures as in it is based on informal interactions inside the organization, among divisions, such cooperation in the future will form the social capital of the organization which represents a certain value for the organization, and its competitive advantages. Studying of intra-firm interactions is presented from a position of organizational structure formation.

So, a nature explanation, definition of specific characteristics, classification, search of the reasons and sources of economic efficiency and unique competitive advantages of the network organizations – it is a popular subject of scientific researches in management, marketing, economy and sociology. At least it is connected with two main reasons.

Firstly, universal nature of a network principle. Since the network is a set of stable relations between objects (which keep relative independence on the relation to each other), this concept is applicable to very wide range of the phenomena and objects (Pozhidayev, 2010). As regards the network organizations, this principle is applicable to all complex of relations between firms in inside outside of partnership, to an external environment as a whole. Application of a network principle within the subject of this research is caused by its universality.

Secondly, the network organizations are difficult and multilateral objects of analysis, since in this case there is a merger of a number of complex systems and the result is a new system with the properties which are not equal to the

sum of properties of initial elements. In practice it means that any form of company integration has a set of aspects which are often beyond market activity of independent firm which generally estimated from a position of economic indicators.

3. Approaches to the evaluation of organizational structure

3.1 Theory of economic sociology

Set of universality and complexity defines existence of different approaches to understanding of the network organizations and specificity of their activity among which it is possible to allocate three main. These are the approaches developed by economic sociology, relationship marketing and strategic management. The greatest interest for the solution of research problems represents the approach developed by economic sociology.

The economic sociology considers a wide field of researches – from the analysis of formation of intrafirm networks relations (formal and informal) to concepts of understanding of the markets as sets of networks (Pozhidayev, 2010).

The explanation of a network principle in sociology is based on the simple precondition: participants of the market, entering a voluntary market exchange, with bigger probability enter into the relations with whom they dealt formerly, having already convinced in reliability of partners. Between the contractors arise a specific selectivity, which grows from a community of social signs recognized by them. Accordingly, the market considerably consists of actions of participants which are in the relationship of connectivity and interdependence (Radayev, 2008).

The role and study of the relations and interdependence are the main objects of organizational researches in economic sociology. In U.Powell and L.Smith-Dore's opinion, within such approach there are two developing directions (Powell and Smith-Dore, 2003).

The first, based on sociology and the theory of the organizations, considers networks «as the way to describe the social relations, whether it is the relations in firm, interorganizational connections between firms or environment of the organizations» (Powell and Smith-Dore, 2003).

The second, more multidisciplinary direction analyzes networks «as a certain type of organizing logic, a way of management of the relations between managing actors» (Powell and Smith-Dore, 2003).

For the solution of research problems it is necessary to give an attention to the second direction.

However the circle of researches of the network organizations in economic sociology isn't limited only by these directions.

Studying the network relations, sociologists (Brentley, Boshma, Krekhardt, Gilati, Barabasi, Glueckler, Lembou, etc.) are often focused on questions of formation and activity of the branched-out horizontal networks formally independent firms, which are concentrated in one geographical zone (Radayev, 2008).

At the origins of the network approach in economic sociology stood Americans – M. Granovetter who has published in the mid-seventies on of some works about the network organization of a labor market (Granovetter, 2002), and also his teacher H.White, it is a question of his article in 1981st «From where are markets cropped up?».

The scientific base of economic sociology regarding researches of the network organizations is guided by the theory of resource dependence and the institutional theory. The main object of studying both that cases is interdependence between partners.

The leading role in formation of networks belongs to the qualitative and quantitative dependences arising as a result of firms' entry to the relations of an exchange with environment for receiving resources, for achievement of unity and a complementarity of resources, mechanisms of management and coordination by streams of resources between participants of a network.

The institutional theory in formation of networks allocates the main role to the social dependence and comes from the fact that the environment (including other organizations, social institutes, and also cultural and standard features of this environment) puts pressure upon the organizations and compels them to develop the rules corresponding to prevailing social norms. Social communications, networks, formal contracts and other tools, which saves firm from isolation in society are considered as a basis of a survival and efficiency of firm.

Networks of the relations between individuals in the various organizations and between the organizations play a determinative role for an explanation of how in the organizations similar structures are formed and why the organizations choose identical strategy (Pozhidayev, 2010).

3.2 Theory of informal networks

The approach to the network organizations, developing by economic sociology, generally put an emphasis on relationship within the organization and between its divisions. Such a relationship is shown in the form of informal communications, thereby leading to formation of informal networks, which control a certain quantity of information flows.

Within such approach the first descriptions and the analysis of informal networks of the relations in organizations dates from the end of 1930th, these are F.Rotlisberg, U.Dikson, Ch.Barnard's works and others (Katkalo, 2006). This tradition, which has had big development in the further part of 20th century, comes from the fact that the analysis of formal relations doesn't exhaust a network of the relations, which form the structure of organizational structure. The important part of organizational structure are informal or «arising from within it» relations (Katkalo, 2006). Besides idea that the organizations are networks of the repeating relations at any level, the basic assumption of such approach includes the following: environment of the organization should be understood as a network of other organizations; acts of characters in the organizations can be better explained taking into account their positions in the network of relations; networks impose restrictions on acts and are formed the last; the comparative analysis of the organizations should consider its network characteristics (Katkalo, 2006).

Such treatment of the network organizations generally was developed by sociologists and presented in 1992 in the phased collection of articles «Networks and the organizations» (Nohria, & Eccles, 1992). This approach is now actual, because it allows to consider intra and interfirm networks as a uniform conceptual basis, which participants have some general problems.

3.3 Evaluation of the organization's social capital

All informal communications in the organizations, so-called informal networks, represent a certain potential for the organization, but does this potential always takes the form of the social capital and in a consequence is expressed in a monetary form? To answer these questions it is necessary to be define what is the social capital of the organization.

The idea of the social capital as a public benefit is being developed by R.Putnam. In the book «Working democracy» he makes the following definition of the social capital: «The social capital belongs to characteristics of the social organization, such as trust, norms, networks, which can improve efficiency of society» (Sidorina, 2010). In a later book «Bowling alone» Putnam determines the social capital as «communications between individuals are social networks and norms of inteconnection, which steams from them (from networks)», focusing his attention primarily on external, public, instead of private effects of the social capital. Ostom is close to such consideration of the social capital as well, and according to him the social capital is «divided knowledge, norms, rules and expectations concerning models of the interaction, which carried out by the groups of individuals as repeating activity» (Sidorina, 2010).

A.Portes in his earlier works expressed an opinion that the ability to accumulate the social capital isn't the individual characteristic of the personality, it is the feature of that network of the relations, which is built by the individual. Thus, «the social capital is a product of an inclusiveness of the person in social structure» (Nestik, 2004).

All presented statements consider the social capital as attribute of the organization anyway. So, S. Byusse in article «The social capital and informal economy in Russia» writes that «the social capital unlike other its forms isn't only the characteristic of the individual, but rather describes human relations in which this individual is included» (Nestik, 2004).

In domestic editions it is possible to meet interpretation of the social capital as organization resource. Addressing to a question of formation of the social capital in the economic organization, P.Shikhirev allocates its main

characteristics: trust of the organization «as integrated expression of a condition of its internal public relations»; reputation of the organization «as expression of a condition of external relations»; strategy and tactics of business negotiations «as expression of valuable orientation of the social relations subject»; corporate administration as «following to the principles and values» (Shikhirev, 2003). Shikhirev calls trust as the most important property of the social capital as a form of the social interpersonal relations.

4. Conclusions

So the approach to the network organizations developing by economic sociology put an emphasis on the relationship of subjects and methods of assessment of these interactions. The economic sociology begins to consider relationship between economic subjects not only at level of trust and repeat of transactions, but also from the point of view of control over the resources flowing through the economic subject, in the role of economic subject can be both the organization as a whole and its separate division.

Unconditional achievements of economic sociology in point of study the network organizations are the clarification of the reasons and motives, which induce to form and develop the steady network relations, their analysis taking into account social aspects, definition of interdependencies' types, substantiation of cause-effect relationship of network formation and their efficiency from a position of formation of organizational structures.

Were revealed the preconditions of the accounting of economic sociology principles for the formation of organizational structure of the enterprise.

Having analysed what is said above it is possible to conclude that the enterprise acts as the collective carrier of the social capital. Such capital should be understood as a resource of the organization including both formal and informal relationship between participants of a network. If we assess this relationship by means of various indicators, there is a possibility to consider them at an assessment of the organizational structure.

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